

Budgeting

From [Deborah Fowles](#),
Your Guide to [Financial Planning](#).
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First Step to Financial Success

Personal financial planning consists of three general activities:

- Controlling your day-to-day finances to enable you to do the things that bring you satisfaction and enjoyment.
- Choosing and following a course toward long-term financial goals such as buying a house, sending your kids to college, or retiring comfortably.
- Building a financial safety net to prevent financial disasters caused by catastrophic illnesses or other personal tragedies.

This article addresses how to achieve the first of these goals: controlling your day-to-day financial affairs. See "More of This Article Series" in the box to the top right for Step Two: "Setting Financial Goals," and Step Three: "Building a Financial Safety Net."

Why Should I Budget?

Controlling your financial affairs requires a budget. For many people, the word "budget" has a negative connotation. Instead of thinking of a budget as financial handcuffs, think of it as a means to achieve financial success.

Whether you make thousands of dollars a year or hundreds of thousands of dollars a year, a budget is the first and most important step you can take towards putting your money to work for you instead of being controlled by it and forever falling short of your financial goals.

To those of you who think you know where your money goes without keeping detailed records, I issue this challenge: keep track of every cent you spend for one month. I promise you'll be surprised and perhaps shocked by how much some of your "small" expenditures add up to.

For an eye-opening illustration, try the American Express [Saving or Spending Big Calculator](#). Enter the cost and frequency of a habit or indulgence and how many years you expect it to continue. Click a button and see not only how much you'll spend over the specified time period, but how much that same amount would grow to if you invested it at various rates of return. Mind-boggling!

Budgeting and tracking your expenses gives you a strong sense of where your money goes and can help you reach your financial goals, whether they are saving for a down payment on a house, starting a college fund for your kids, buying a new car, planning for retirement, paying off the credit cards, or saving for that trip to Aruba.

Since financial matters are one of the leading causes of marital discord and divorce, getting a handle on your spending, implementing a budget, and saving for the future can also have positive effects on your relationship with your spouse or partner.

Should I Use a Software Program?

You don't need to invest in fancy software in order to do a budget, but a good software program WILL make the job easier, and being able to print out graphs and reports from your PC can serve as a motivation for entering all that data.

Many banks are now offering free PC banking and free personal finance software. You simply dial into the bank's computer (or your bank may use web-based banking), and download the checks that have cleared your account, directly into your personal finance software. Then you indicate an expense category for each check.

You can do a basic comparison of budget versus actual expenses by category, or you can enter more detailed information such as investments, assets, liabilities, etc., and print personal financial statements showing your net income and net worth.

Some of the most popular personal finance software programs for checkbook and expense tracking are: [Quicken](#), [MS Money](#), and [MoneyDance](#).

Whether you use sophisticated personal finance software or a couple of pieces of paper and a pencil, the important thing is that you get on the road to financial freedom by starting a budget today.

The \$ Adds Up...

Habit	Yearly Cost
Daily Cup of Coffee	\$547/yr
2 Packs of Cigarettes/Day	\$2555 - \$3285/yr
1 Hardback & 3 Paperback Books/Mo.	\$690/yr
Lunch Take-out 5 days/wk @ \$5-\$10/day	\$1300 - \$2600/yr
3 Drinks at a Bar/Wk.	\$936 - \$1092/yr
3 Six-packs of Beer/Wk.	\$624 - \$936/yr

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